

**CONFIDENTIAL****"MARSHALL PLAN" FOR POLAND****A Cost Analysis****Introduction**

This analysis of the costs of significant economic assistance to Poland follows the convenient pattern of (1) establishing a Base-Line, or minimal, program which would aim to stabilize the Polish economy at more or less its present depressed level, then (2) considering an increment to the base-line program that could put the Polish economy on a path of renewed growth and recovering standards of living. The Base-Line program does no more than cover the hard-currency financial gaps which the Poles themselves have projected as needed to support their economy in a decidedly lackluster condition, at least for the next year or two.

The analysis assumes adequate burdensharing by the Allies. In a total aid package, U.S. shares ranging from 10% to 30% can be justified, depending on the formula used. This analysis uses a figure of 20% as a reasonable compromise between these extremes, regarding which there are inter-agency differences of view.

The analysis focusses on the incremental costs of any new program. Thus, it assumes that debt rescheduling along the lines already agreed to by official creditors for 1981 (90% of principal and interest) will take place in any event (whether by agreement or by Polish default) and therefore represents "sunk" costs independent of any new assistance program. Rescheduling by the private banks (95% of principal only) is handled similarly.

**The Base-Line Program**

Poland's most recently projected financial gaps for 1981 and 1982 amount to \$0.8 billion and \$3.8 billion, respectively. At least \$350 million of the former figure has to be seen as a potential bail-out of the banks (mostly European) for interest payments due in 1981.

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After 1982, the gap is expected to decline to about \$2 billion by 1985. Because debt rescheduled in 1981 will start falling due after 1985, Poland's financial gap will increase again in 1986 and beyond, unless there is then a rescheduling of previously rescheduled debt. Leaving the years after 1985 out of consideration, the costs of a Base-Line or minimal assistance program for Poland over the medium term, by calendar year through 1985, can be estimated as follows:

New Money Beyond Costs of Debt Rescheduling		(\$ Millions)				
	1981	1982	1983	1984	1985	Total
Total Program	800	3,800	3,000	2,500	2,000	12,100
U.S. Share (20%)	160*	760*	600	500	400	2,420

\* Likely to be concentrated in FY 1982, for a total of \$920 million.

#### The Incremental Program

There has been no definitive analysis of what Poland's requirements might be, should the Western allies decide to go beyond the basic balance of payments support envisioned in the Base-Line sort of program outlined above. In its current depressed state, however, the Polish economy has considerable absorptive capacity for (1) inputs to agricultural production, (2) raw materials and intermediate goods for manufacturing, (3) spare parts and equipment to replace capital facilities damaged or run down over the past year, and (4) carefully selected new investment. Thus, an incremental program of \$3 billion to \$5 billion annually through 1985 likely would not be constrained by Poland's absorptive capacity and would stimulate the economy powerfully. Perhaps 10 percent of the total should be allocated to administrative costs, as effective economic management will be essential for a successful program; the Poles have demonstrated in the past that they do not possess such management capability. The U.S. share of the program, at 20%, would be \$600 million to \$1 billion annually.

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Combined Costs

With the Base-Line and Incremental programs combined, costs to the USG, by fiscal years, through 1985, would be as follows:

(\$ Billions)

<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>TOTAL</u>
1.52-1.92	1.2-1.6	1.1-1.5	1.0-1.4	4.82-6.42

Other Key Considerations

- A highly publicized Western program, especially one of the incremental variety, could well induce the Soviets to reduce or cease their support of the Polish economy, which amounts to \$2 billion to \$3 billion annually in terms of real resource transfers. This would leave the West with all its costs and few if any of the expected benefits of Polish economic resurgence; the West would simply be assuming costs previously borne by the USSR.
- Without institutional reform of the Polish economy, by the Poles themselves and with Western managerial and organizational help, any assistance effort by the Allies would be largely wasted. It would simply prop up Polish per capita incomes for a few years, leading to new crises when the program ended. This is, in effect, what happened to Poland in the 1970's, when skyrocketing borrowing provided analogous income transfers from the West.
- All US assistance could and should be tied to U.S. exports, but the Allies are likely to do the same, so that there will be no feedback demand for US exports from Allied assistance.
- Some "bail-out" of private creditors cannot be avoided, especially initially.
- A coordinated Allied program, especially at the incremental level, could well restore the confidence of private lenders and lead to a resumption of private credits to the Poles. This could reduce the need for official assistance. Quantification of the extent of possible new private lending would be sheer guesswork. Confidence will return only over time.

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- Any assistance under either the Base-Line or the Incremental program should be highly concessional. Poland would be hurt rather than helped by new short- or medium-term debt. From a cost analysis perspective, this implies heavy current budget outlays that would not be recouped for many years.
- A resurgence of the Polish economy implies increased exports to the West. Western countries will need to be prepared to maintain open markets for Polish goods, which implies policy-level resistance to the inevitable charges of dumping and market disruption that the US and other governments will face.

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